



## THE CITY OF SAN DIEGO

DATE: June 15, 2009

TO: Honorable City Councilmembers Todd Gloria and Donna Frye

FROM: Eduardo Luna, City Auditor

SUBJECT: **Request for Capital Improvements Program Audit**

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On May 21, 2009, you requested in the attached memo that my office include a performance audit of the Capital Improvement Program in my proposed Fiscal Year 2010 Audit Work Plan. Given the significance, fiscal impact, and complexity of the Capital Improvement Program, a performance audit of this program is warranted. However, in my estimation an audit of this program will require significant audit resources, in the range of 2,000 to 2,500 hours to complete.

My office is in the process of creating the Citywide Risk Assessment model that will be used to identify high-risk programs to audit during Fiscal Year 2010. Based on the results of last year's Risk Assessment model, several departments involved in the Capital Improvement Program, such as the Department of Engineering and Capital Projects had several high-risk and moderate-risk activities. I would expect that the Fiscal Year 2010 Risk Assessment will yield similar results and support an audit of the Capital Improvement Program. As a result, I intend to recommend an audit of the Capital Improvement Program.

Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Honorable Audit Committee Members  
Andrea Tevlin, Independent Budget Analyst  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer



**OFFICE OF COUNCILMEMBER TODD GLORIA  
OFFICE OF COUNCILMEMBER DONNA FRYE**

**CITY OF SAN DIEGO**

**M E M O R A N D U M**

**DATE:** May 21, 2009

**TO:** City Auditor Eduardo Luna

**FROM:** Councilmember Todd Gloria, Third Council District

Councilmember Donna Frye, Sixth Council District

*Todd Gloria*  
*Donna Frye*

**SUBJECT:** Request for Capital Improvements Program Performance Audit

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The purpose of this memorandum is to request that a performance audit of the City of San Diego's Capital Improvements Program (CIP) be included in your Fiscal Year 2010 work plan. As defined, a performance audit independently and systematically examines evidence to assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making. This is particularly critical during dire fiscal circumstances in which the City is forced to balance important capital improvements against other pressing needs. Although the CIP has been effective in designing and constructing a wide range of infrastructure projects and other significant capital investments, we have great concerns about the Program's overall effectiveness and ability to execute projects as expected.

As the City continues to make significant investments toward deferred maintenance and Americans with Disabilities Act (ADA) obligations, and as we continue to borrow money, sell assets, and compete for grant funding to address these needs, we must ensure that the system in place for managing and executing capital projects is reliable and accountable. Our experienced delay in completing approved projects undermines the public's confidence in the City's ability to get things done. The City also faces risk of losing federal matching funds and loss of value of the funds as the cost of construction materials increases by more than the interest the funds generated.

We have closely examined the CIP process and we have also received feedback from some City staff, stakeholders and residents who are equally concerned that the City's

current system for capital improvements is not ideal and that cost-savings and efficiencies can certainly be achieved with reform. We believe we can take much-needed steps to improve accountability, speed processes, and strengthen project management. With these changes, there is a great opportunity to really begin to address our infrastructure needs and reduce the City's estimated \$900 million backlog of deferred maintenance projects.

We respectfully request that you identify whether or not the system in place effectively manages, prioritizes, monitors and reports on capital improvement projects. We also ask that the audit examine how the processes have evolved as there have been many procedural changes with reorganizations and Business Process Reengineering efforts.

In addition, we would ask that you provide recommendations for reform of the CIP. We are particularly interested in performance measures for the Program and are concerned about the Program's ability to deliver on its promises, the lack of prioritization used to initiate and execute projects, the timeliness of the delivery, and most important, the City's capacity to manage and complete this workload. Most recently, the City has increased capital improvements funding by reducing expenditures and earmarking new revenue sources. The number of projects approved has also increased, especially in the past few years. However, the City apparently has not increased its capacity to manage additional projects. In fact, it has reduced staffing, resulting in increasing amounts of capital appropriations being rolled into the next year's spending authority. We are curious to know the amount of unspent capital appropriations essentially sitting in the bank.

We truly believe that this performance audit will inform us how best to effectively and efficiently continue to rehabilitate, improve, and increase the City's capital facilities.

Thank you for your prompt attention to this matter.

TG:pi

cc: Mayor Jerry Sanders  
City Councilmembers  
Audit Committee Members  
Andrea Tevlin, Independent Budget Analyst  
Jay Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Department Directors